

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SWF-01 AID-05 CEA-01 CIAE-00 COME-00

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STR-01 TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 FEA-01

AEC-05 DODE-00 FPC-01 H-01 INT-05 L-02 NSC-05 PM-03

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C O N F I D E N T I A L EC BRUSSELS 9807

E.O. 11652: GDS

TAGS: EFIN, EEC

SUBJECT: EC COMMISSION OFFICIAL ASSESSES PROGRESS OF US
RECYCLING PROPOSAL

REF: A. EC BRUSSELS 9598

B. EC BRUSSELS 9442

1. SUMMARY: THE EC COMMISSION DIRECTOR FOR FINANCIAL MATTERS (NASH) BELIEVES THE G-10 TECHNICAL COMMITTEE ON RECYCLING IS MAKING SATISFACTORY PROGRESS AND THAT AGREEMENT MIGHT BE REACHED TO SET UP AN OECD FACILITY BY MID-MARCH. THE EC COMMISSION CONTINUES TO FAVOR AN OECD FACILITY, IN PRINCIPLE, AND IS WAITING FOR THE VARIOUS PROPOSALS TO BE REFINED BEFORE TAKING A POSITION ON SPECIFIC ISSUES. THE EC HAS SCHEDULED A SERIES OF MEETINGS TO COORDINATE ITS POSITION BEFORE THE IMF INTERIM COMMITTEE MEETING. END SUMMARY.

2. TIME NEEDED FOR FINAL AGREEMENT: JOHN NASH, WHO REPRESENTS THE EC COMMISSION IN THE G-10 TECHNICAL COMMITTEE ON RECYCLING, PROVIDED US HIS ASSESSMENT OF THE COMMITTEE'S WORK ON THE US
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PROPOSED OECD RECYCLING FACILITY. NASH BELIEVES THE OUTSTAND-

ING ISSUES ARE TOO COMPLEX AND CONTROVERSIAL FOR THE TECHNICAL COMMITTEE TO ARRIVE AT AN AGREED POSITION BY MID-JANUARY. HE HAS CONSEQUENTLY PROPOSED THAT VAN YPERSELE PREPARE A CHAIRMAN'S REPORT FOR THE G-10 DEPUTIES AND INTERIM COMMITTEE MEETINGS IN MID-JANUARY. BASED ON THE TECHNICAL COMMITTEE'S DISCUSSIONS, THIS REPORT WOULD PROPOSE THE GENERAL OUTLINES OF THE FACILITY AND TAKE NOTE OF COUNTRIES' SPECIFIC RESERVATIONS. HOPEFULLY, THE INTERIM COMMITTEE WOULD AGREE TO THE GENERAL OUTLINE AND PRINCIPLES OF THIS REPORT AND GIVE THE TECHNICAL COMMITTEE THE MANDATE TO DEVELOP A FINAL PROPOSAL BY MID-MARCH.

3. MAJOR ISSUE: NASH SAID THE TECHNICAL MEETING OF DECEMBER 5-6, WENT WELL, BUT SUCCESS WILL REQUIRE THAT THE PARTICIPANTS, INCLUDING THE U.S., TAKE A MORE FLEXIBLE POSITION IN THE FUTURE. HE IS AWARE THAT BASING THE FACILITY SOLELY ON MULTILATERAL GUARANTEES WOULD RESTRICT THE BORROWING CAPACITY TO ONLY ABOUT \$6-7 BILLION NEXT YEAR BECAUSE OF THE ARABS' DEMAND FOR EXCESSIVE COVER. FOR THIS REASON NASH FAVORS A MIXED SCHEME IN WHICH A SMALL AMOUNT OF EACH MEMBER'S QUOTA, PERHAPS 10-20 PERCENT, WOULD BE CONTRIBUTED DIRECTLY AND THE BALANCE WOULD BE IN GUARANTEES. THE FRG'S POSITION WILL BE DETERMINANT IN THE FINAL OUTCOME; NASH BELIEVES THE GERMANS CAN BE PERSUADED TO MAKE A MODEST DIRECT CONTRIBUTION.

4. EC COMMISSION POSITION: THE COMMISSION HAS ADOPTED SEVERAL GENERAL PRINCIPLES REGARDING MULTILATERAL RECYCLING. ITS APPROACH HAS FOUR MAIN ELEMENTS: 1) THE COMMISSION AGREES, IN PRINCIPLE, TO THE CREATION OF A NEW SUPPLEMENTARY RECYCLING MECHANISM WITHIN THE OECD; 2) IT FAVORS INCREASING THE IMF "OIL FACILITY" BY \$6-8 BILLION; 3) IT SEEKS MEMBER STATE CONCURRENCE TO CONSULT WITHIN THE EC FRAMEWORK BEFORE AGREEING TO PARTICIPATE IN ANY NEW RECYCLING MECHANISM; AND 4) THE COMMISSION WANTS THE EC TO ADOPT A COMMON POSITION REGARDING RECYCLING NEGOTIATIONS. THE COMMISSION WILL LIKELY ASK THE COUNCIL (FINANCE) TO AGREE TO THIS APPROACH ON DECEMBER 19.

5. NO EC "BLOC APPROACH: THERE ARE SOME COMMISSIONERS AND OTHER SENIOR FINANCIAL OFFICIALS WHO FAVOR THE EC PARTICIPATING

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CIPATING IN THE PROPOSED FACILITY AS A "UNIFIED", SINGLE, ENTITY (SEE REF. B). NASH SAYS THE COMMISSION FOR THE TIME BEING HAS REJECTED THIS. HE BELIEVES SUCH AN APPROACH WOULD BE DIVISIVE AND IS UNREALISTIC. THE FRG AND THIRD COUNTRIES WOULD NOT ACCEPT IT. ALTHOUGH A "UNIFIED" APPROACH HAS BEEN PUT ASIDE FOR THE PRESENT, THERE ARE KEY ACTIVIST ELEMENTS IN THE COMMISSION WHO STILL FAVOR IT AND WILL PUSH IT IN THE FUTURE.

6. SCHEDULE OF EC MEETINGS: IN ORDER TO COORDINATE ITS POSITION FOR THE IMF INTERIM COMMITTEE MEETING, THE EC PLANS A SERIES OF MEETINGS TO DISCUSS RECYCLING AND OTHER FINANCIAL ISSUES. THE FOLLOWING IS THE MEETING SCHEDULE: 1) EC MONETARY COMMITTEE, DECEMBER 18; 2) COUNCIL (FINANCE), DECEMBER 19; 3) MONETARY COMMITTEE, JANUARY 5-6, IN LONDON; AND 4) EC COMMITTEE OF FINANCE MINISTERS IN LONDON, JANUARY 7-8. GREENWALD

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